

Fiscal Note

Fiscal Services Division



SF 2326 – Renewable Energy Tax Credits (LSB 5686SV.1)
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Fiscal Note Version – As passed by the Senate

Description

Senate File 2326 as passed by the Senate relates to Iowa's wind energy production tax incentives. The Bill:

- Adds 15 megawatts per year to the 1.5 cent per kilowatt-hour tax credit under [Iowa Code chapter 476C](#) (Renewable Energy Tax Credit), beginning 2015 and ending 2019. This adds a total of 75 megawatts of eligible capacity to the wind portion of the chapter 476C tax credit program.
- Adds 5 megawatts per year to the 1.5 cent per kilowatt-hour tax credit for nonwind projects under Iowa Code chapter 476C, beginning 2015 and ending 2019. This adds a total of 25 megawatts of eligible capacity to the nonwind portion of the chapter 476C tax credit program.
- Extends the current June 30, 2012, deadline for facilities approved under Iowa Code chapter 476B to become operational. The deadline is extended one year to June 30, 2013. In addition, the Bill would allow an existing project to receive additional tax credits under specified circumstances.

The Bill is effective July 1, 2012.

Assumptions

Iowa Code chapter 476B Projects:

- To qualify for tax credits a project approved under Iowa Code chapter 476B must be operational before July 1, 2012. The maximum approved capacity of all projects under this chapter is 50.0 megawatts.
- According to the Iowa Utilities Division, of the existing 50.0 megawatt maximum for chapter 476B:
 - Two projects totaling 21.0 megawatts are operational.
 - One 24.5 megawatt project is approved but not yet operational.
 - 4.5 megawatts of capacity remain available.
 - Three projects, each proposed at 30.0 megawatts, are on an existing waiting list.
- For this estimate, it is assumed the 24.5 megawatt facility will become operational by the current law deadline.
- For this estimate, it is assumed the 4.5 megawatts of capacity that is currently unclaimed will be claimed by the first 30 megawatt project on the waiting list and that project is either currently operational or will become operational by the deadline.
- The new language added as Iowa Code section 476B.4(b) is not designed, and will not be interpreted, to allow capacity in excess of 50.0 megawatts under Iowa Code chapter 476B to be approved for tax credits.

Iowa Code chapter 476C Future Wind and Nonwind Projects:

- Sufficient demand will exist in calendar years 2015 through 2019 to fully utilize the 100 megawatts of new production authorized.
- The average capacity factor will equal 38.0% for wind projects and 80.0% for nonwind projects.
- Once earned, tax credits will be redeemed:
 - Initial year = 80.0%
 - Second year = 15.0%
 - Third year = 5.0%

Fiscal Impact – 476B Changes

The combination of assumptions for chapter 476B projects results in no fiscal impact due to the proposed law change. If assumptions concerning projects becoming operational before July 1, 2012, do not prove accurate, then the law change will have a fiscal impact, because tax credits will be earned and redeemed in future years that without the law change could not be earned and redeemed.

Fiscal Impact – 476C Changes

The 100 megawatts of Iowa Code chapter 476C wind and nonwind energy production capacity added beginning in calendar year 2015 will reduce net General Fund revenue when tax credits earned through those projects are redeemed. The following table provides the projected additional net General Fund revenue reduction associated with those 100 megawatts.

Est. General Fund Revenue Reductions Tax Credit Redemptions 100MW of New 476C Tax Credits Available CY 2015 to CY 2019 \$ in Millions			
FY 2017	\$ 0.0	FY 2026	\$ 6.4
FY 2018	1.0	FY 2027	6.4
FY 2019	2.2	FY 2028	5.4
FY 2020	3.5	FY 2029	4.1
FY 2021	4.8	FY 2030	2.9
FY 2022	6.1	FY 2031	1.6
FY 2023	6.3	FY 2032	0.3
FY 2024	6.4	FY 2033	0.1
FY 2025	6.4	FY 2034	0.0
Total Fiscal Impact = \$63.9 million			

Tax credits earned under Iowa Code chapter 476C are not refundable, so to the extent the credits are redeemed through individual income tax returns they will impact the calculation of the Local Option Income Surtax for Schools. The statewide average impact will be approximately 3.0% of the net General Fund impact, but only for those credits redeemed on individual income tax returns.

The Iowa Utilities Division has significant duties related to evaluating and approving projects eligible under Iowa Code chapter 476C. This Bill will expand and extend the workload of the Division staff. The Utilities Division estimates that an additional 0.5 FTE position will be necessary once the new projects begin to apply for the additional credits in CY 2015 and salaries, benefits, and support for the position will total approximately \$45,000 per year.

Sources

Legislative Services Agency Analysis
Iowa Utilities Division
Iowa Department of Revenue
Natural Resources Defense Council

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
